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SUBJECT: GOI OUTLINES POSSIBLE U.S. GESTURES TO IRAN

Classified By: Charge d'Affaires Luis G. Moreno, Reason 1.4 (b) (d)

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Summary
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1. (S) On August 17th, Israeli Defense Intelligence (IDI) gathered a round-table of in-house experts to discuss possible gestures to Iran that the U.S. and international community could utilize during negotiations over Iran's nuclear program and the resumption of relations. The panel consisted of economic, political, military, and psychological analysts, representing a diverse set of opinions on Iran. The group highlighted the importance of economic stability and political survival for the Iranian regime, and outlined specific "carrots" that the U.S. and international community could offer to this end. The open discussion and prescriptions for engagement from this dialogue contrast sharply with the more prevalent GOI calls for increased economic pressure on Iran (see septel) and provide a glimpse into alternative Israeli thinking about approaching the Iranian issue. The panel chair provided a read-out to Econoff on August 18th. End Summary.

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Top-Tier Gestures: Economic and Political Stability of the Iranian Regime
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2. (S) After the recent elections in Iran, GOI officials view regime survival as the leadership's primary concern. The GOI believes that advisors close to President Ahmadinejad and Supreme Leader Khamenei view the deteriorating economic situation as one of the key threats to regime stability. These advisors realize that China and other Asian nations are not the answer to Iran's economic problems, and understand that Iran also needs economic ties with the West. While GOI officials maintain that these advisors are accurately assessing Iran's economic situation, they have not seen any evidence to support this in Ahmadinejad and Khamenei's actions. For this political echelon, any outreach that would serve to minimize internal or international dissent with the regime and its policies or actions would be extremely valuable. The GOI panel outlined the following economic and political gestures as the "top-tier" of possible offers, due to its assessment of the Iranian regime's desires and the political/economic climate:

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Top-Tier Economic Gestures
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3. (S) GOI officials assess that in the short-term, banking issues are critical for the survival of the Iranian regime. The Central Bank of Iran (CBI) has been losing money--over USD 5 billion in foreign reserves over the past year. Export earnings have fallen because of oil prices. Though imports are down, they have not decreased at the same rate--leading to a further loss in foreign exchange due to financing. GOI officials note that what clearly worries the Iranian regime

right now is finance. In the last few months, the CBI has been working behind the scenes to address these issues. However, in the past weeks, this discussion has moved into the public sphere as the CBI has resorted to pushing for text in the next budget bill to provide money to finance the banking sector.

--Therefore, the GOI claims that gestures to help ease the financial burden on the Iranian banking system would be of critical importance to the Iranian regime in the short-term. Such offers could include decreasing pressure from the Financial Action Task Force on Money Laundering and Terrorist Financing (FATF), from U.S. designations and related outreach programs, and/ or by not restricting new Iranian government bonds (of which Iran plans to issue more than USD 10 million in the coming months).

¶4. (S) Due to U.S. and international sanctions and other pressure, the GOI assesses that Iranian gas and petrochemical industries have not received adequate finance and know-how to fully exploit existing gas fields and to develop new projects. For instance, according to the Iran-Qatar agreement regarding the development of South Pars gas field the two countries were supposed to split the reserves equally. However, Iran has not been able to tap its reserves to the same degree as Qatar because of the technological gap. Though China has provided some funding and know-how, the GOI believes that Iran still desires greater partnership on these issues with the international community.

--The GOI thinks the U.S. and international community could offer to ease restrictions on the development of future

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projects in the gas and petrochemical sectors. While such a gesture would be highly significant to the Iranian regime, it would be a relatively risk-averse proposition for the international community since development of such projects could take in excess of five years. During this time, reassessments could be made regarding the progress of negotiations with the Iranians.

¶5. (S) On longer-term economic viability, GOI notes that Iran is in the midst of upgrading between five and seven gasoline refining facilities. These projects will be completed between a half-year and 3 years' time. GOI estimates that these new facilities will cut Iran's reliance on gasoline imports by around 50 percent. However, in order to entirely halt the importation of gasoline, Iran would need to also construct new refining facilities. Despite the regime's intentions and plans, they have encountered serious financial difficulties as well as a general reluctance from international companies to engage in such projects. Also, Iran's major car companies are facing bankruptcies stemming from--among several issues--international economic pressure and decreasing partnership with European car manufacturers. Though Iran is establishing new relationships with Chinese car manufacturers, these have not been able to supplant its former European ties.

--Given the severe economic impact of rising gasoline prices and shortages, the GOI thinks that the U.S. and international community could offer to decrease pressure on the importation of gasoline and/ or companies helping Iran to upgrade its facilities and capabilities.

--The U.S. and international community could also offer to encourage renewed cooperation between Iranian and European car manufacturers.

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Top-Tier Political Gestures
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¶6. (S) The GOI team assessed the following to be the most important political gestures that the U.S. and international

community could make, from the Iranian leadership's perspective:

--Vow to decrease or cease public pronouncements on the international stage critical of the Iranian regime: GOI officials believe that the Iranian leadership views much of the current domestic dissent as being caused by a "superpower behind the scenes." They see public pronouncements by the international community on the domestic political situation--including the elections, human rights, prisoners, and other topics--as only serving to exacerbate internal strife.

--Filter Voice of America content or cease politically sensitive broadcasts: GOI notes that the Iranian leadership is acutely concerned about the broadcasts of Voice of America and the BBC. The Iranian leadership views Voice of America as the "head of the spear" trying to penetrate and divide Iranian society.

--Unfreeze assets: a holdover from the revolution, GOI claims that unfreezing some or all of Iranian assets abroad could serve as an important gesture to the Iranian leadership, and dissipate a long-standing point of contention.

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Other Gestures
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17. (S) The GOI noted other useful gestures in a dialogue with Iran. From GOI's perspective these offers are not as important to the Iranian regime's goal of short-term survival. However, they are linked to its long-term goals for stability. These gestures include showing greater "respect" for the Iranian regime and erasing the stigma attached to it. Along these lines, the GOI assesses that the U.S. and/or international community could offer to:

--recognize the role Iran plays in establishing order in Iraq and Afghanistan
--protect and promote Iranian influence in the Persian Gulf
--invite Iran to discussions regarding regional stability and/or the U.S. withdrawal from and plans for Iraq and Afghanistan
--offer to stop, freeze or lift sanctions against the Iranian regime and related entities (Note: The GOI believes the Iranian regime views these sanctions as a political and psychological issue--along with being an economic burden. End Note.)

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Outreach within the Broader Context
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18. (S) Our contact stressed that the GOI panel sought to identify ideas and offers that it believes will interest the Iranians--as opposed to the more common discussions of how to coerce Iran into changing its behavior. However, he emphasized that the GOI would not necessarily like to see these suggestions executed. GOI analysts assess that the tactics of how the gestures are represented would be extremely important. They believe that the gestures would have to be made within the context of "aiming to build trust" as opposed to being pre-conditions for negotiations. According to the GOI, the Iranians would not accept conditions for negotiations.

19. (S) They view another possible hurdle being the Iranian mind-set that the U.S. and international community have already accepted the "current situation" of uranium enrichment on Iranian soil. The GOI believes that any future negotiations with Iran will have to proceed under the guise of negotiating "how much" enrichment can take place instead of "whether" it can take place. In order to discuss the

complete halt of enrichment or any similar offer that "goes back in time", the U.S. and the international community will have to sufficiently prepare the Iranian leadership for such an offer or combine it with valuable gestures.

¶10. (S) The GOI panel believes that there should be further discussions regarding the implied meaning of these gestures--and what the Iranians (and international community) would read into them. Our contact stressed that the GOI panel believes these specific gestures to be the most relevant discussion points for Iran, and that U.S. engagement with Iran will be fruitless without seriously addressing these topics. Iranians currently view the pending legislation in favor of increased economic pressure against Iran in the U.S. Congress as evidence of the "stick" to be used against Iran in the future. This makes the Iranians wary of any "carrots" from the USG, such as President Obama's Nowruz message and leads them to question their sincerity and durability. However, from the GOI perspective, serious offers along the above lines could provide a basis for increased Iranian engagement with the U.S. and international community.

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